

file 25X1

Central Intelligence Agency



Washington, D. C. 20505

DATE 4/2/86 fileDOC NO NESA M 86-20044OCR 3P&PD 1

DIRECTORATE OF INTELLIGENCE

31 March 1986

North Yemen: Oil Update

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Summary

The oil discovery in North Yemen is not yet fully delineated, but we estimate that oil discovered so far is likely to support production of 200,000 b/d by the end of the 1980s. The 10,000 b/d refinery opening this spring will meet one-third of North Yemen's needs, and an oil export pipeline could be completed and exporting 100,000 b/d in early 1988. The oil discovery has encouraged North Yemen to begin moving away from Moscow toward the West.

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The Hunt Oil Company has intensified drilling activity in southeastern North Yemen during the past year to delineate the Alif field--where it made its first discovery--and to examine other promising structures. Hunt has drilled some two dozen wells in the Alif field. Proved reserves currently are estimated in the 400 million barrel range. This is sufficient to provide for at least 100,000 b/d of exports when the 400-kilometer pipeline to the Red Sea is finished. The pipeline's initial 100,000 b/d capacity will be expandable to 400,000 b/d. This 400,000 b/d limit probably represents the most optimistic current view of possible oil exports from the Hunt concession. Hunt has established a joint venture with Exxon to develop the Alif field and construct the export pipeline.

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This paper was prepared by [] Office of Near Eastern and South Asian Analysis, Persian Gulf Division. Comments and queries are welcome and may be directed to the Chief, Persian Gulf Division, []

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Exploratory drilling in two formations near Alif apparently produced promising results. Moreover, Hunt has 20 other sites to explore. Based on the positive results to date, we believe it is highly likely that additional reserves will be found and that production could rise to 200,000 b/d by the end of the 1980s. There are strong prospects for even higher output levels in the 1990s. [REDACTED]

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Other firms--Exxon, Total, and BP--also are exploring their own concessions in North Yemen. Their operations are still in the early stages, although an unconfirmed press report claims that Total had an oil show from an exploratory well near the coast. [REDACTED]

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Economic Implications

The oil discovery marks a turning point in the development of North Yemen's economy. It is particularly good news since other aspects of the economy continue to slide. The country faces persistent current account and budget deficits as well as an average inflation rate of 20 percent per year. Sanaa relies on foreign aid to cover the trade gap, but aid funds in 1985 were less than one-third of their 1982 levels and are not likely to rebound in the near future because declining oil revenues are pinching North Yemen's Persian Gulf benefactors. In addition, foreign exchange reserves have fallen below \$300 million and are now sufficient to cover only two months of imports. [REDACTED]

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Although a portion of initial oil export revenues will be used to pay for Hunt's development costs, we estimate North Yemen's annual earnings could be in the range of \$400 - 600 million. (This assumes \$15 per barrel oil prices and exports of between 100,000 and 150,000 b/d.) Once revenue starts flowing, North Yemen will become less beholden to foreign aid donors. In addition, North Yemen's development program will be less constrained by foreign exchange shortages. The oil discovery already has allowed President Salih to take a harder bargaining position with Soviet and East European countries, and he probably will be able to extract additional technical aid from them at reduced cost. At the same time, Salih almost certainly will spend oil-generated revenues for high priority projects undertaken by Western firms. [REDACTED]

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The impact on the domestic economy will be considerable. We expect new employment and trade opportunities to develop from oil and construction activities. Oil revenues will enable Sanaa to build badly needed roads, schools, hospitals, irrigation works, and other infrastructure projects. [REDACTED]

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Internal Politics

The Hunt oil discovery has strengthened Salih's hold on power. The economic growth that will follow oil exports will bolster him further. [REDACTED]

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Modernization based on oil revenue will reduce the power of North Yemen's confusing welter of tribes and will increase the importance of [REDACTED]

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Western educated technocrats. The enhanced political clout of the technocrats could serve to counterbalance the weight of the military, which is dependent on Soviet-supplied equipment and advisers. [REDACTED]

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Relations with Moscow

There are several indications that the Soviets are worried about the effect the oil discovery will have on their relations with Sanaa. Before the coup in South Yemen, Moscow was pressuring Salih to begin repayment of his military debt to the USSR and trying to weasel its way into oil development activity in North Yemen. Since the South Yemeni coup, the USSR has taken a more accommodating position with Sanaa. [REDACTED]

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Moscow's track record in development projects in North Yemen is poor. Recent economic talks in Moscow degenerated into mutual recriminations, and Yemeni development officials clearly are unhappy with the status of Soviet projects. Nevertheless, given the military's dependence on Soviet equipment and support, Salih probably will continue to give the Soviets a piece of the development pie but probably will keep them out of the oil sector. [REDACTED]

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Relations with Washington

Salih has been moving closer to the United States over the past two years. The oil discovery is a major factor, as is his willingness to look to Washington for help in protecting North Yemen's security. [REDACTED]

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We judge that Salih wants to weaken his ties with Moscow and strengthen his relationship with the West, but he is moving cautiously. He is wary because he thinks Saudi Arabia exercises too much influence on Washington's relationship with North Yemen. His experience with US aid routed through Riyadh undoubtedly has convinced him that the Saudis can be more of a hindrance than a help to him. We believe he may not proceed much further in bolstering ties with Washington until he is convinced North Yemen has a relationship with us that can withstand Riyadh's interference. [REDACTED]

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Salih, however, has made no bones about wanting Western military hardware and training assistance. He wants the best value for his oil money and will be looking to buy in the West. [REDACTED]

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